Assessment and Planning Using Portfolio Analysis

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Abstract Portfolio analysis is a simple yet powerful management tool. Programs and activities are placed on a grid with mission along one axis and financial return on the other. The four boxes of the grid (low mission, low return; high mission, low return; high return, low mission; high return, high mission) help managers identify which programs might be eliminated and which might be nurtured and expanded. The tool also offers insights into how the entire portfolio should be managed.

BASICS OF PORTFOLIO ANALYSIS

Of all the management tools making their way from the commercial to the nonprofit sector, portfolio analysis is one of the most useful and easiest to adapt. In its simplest form, portfolio analysis allows an organization to identify what various activities are accomplishing and helps it better manage the mix of activities. Portfolio analysis is easy to understand, explain to others, and implement. Taken to its next step, it a great tool for planning and budgeting. In particular, it helps an organization figure out where to put its energies and answer the most difficult planning question: what should we *stop* doing?

The underlying tool is simple: a two by two grid, with each axis rated low to high. You could use this grid to chart any number of qualities; for this analysis, we'll chart two of the critical things museums are trying to accomplish:

» How well does an activity further the mission and goals?

» What is the financial or other return?

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About Mission Advancement

It is critical to go beyond the initial assumption that everything produced by the education department (or curatorial or exhibitions departments) furthers the mission, just as it is essential not to discount the mission-relatedness of development and membership events. To make this work well, you need to ask hard questions about exactly how well a program is furthering the mission. For example, a lecture on Chinese scroll painting is probably not advancing the mission of a local historical society, while the same program at a local art museum might rate high on mission advancement.

About Financial and Other Return

Financial return should be measured on a *net* (not gross) basis. That is, how much did you actually make after expenses? If 100 people register for a symposium at $75 but it costs $8,000 to run the program, there was a net loss of $500. Some museums can consistently and accurately calculate net revenue after accounting for all costs—staff time, facilities, overhead, etc. but those situations are rare. It's important to keep the comparisons consistent and fair. Don't allocate indirect costs to some programs and not others. Return can include non-monetary benefits such as publicity or visibility, with the caveat that these are benefits *only* if the organization capitalizes on them or determines they are strategically important. Visible to whom, with what message? How will we monitor or track the effect or impact of the increased visibility?

Completing the Grid

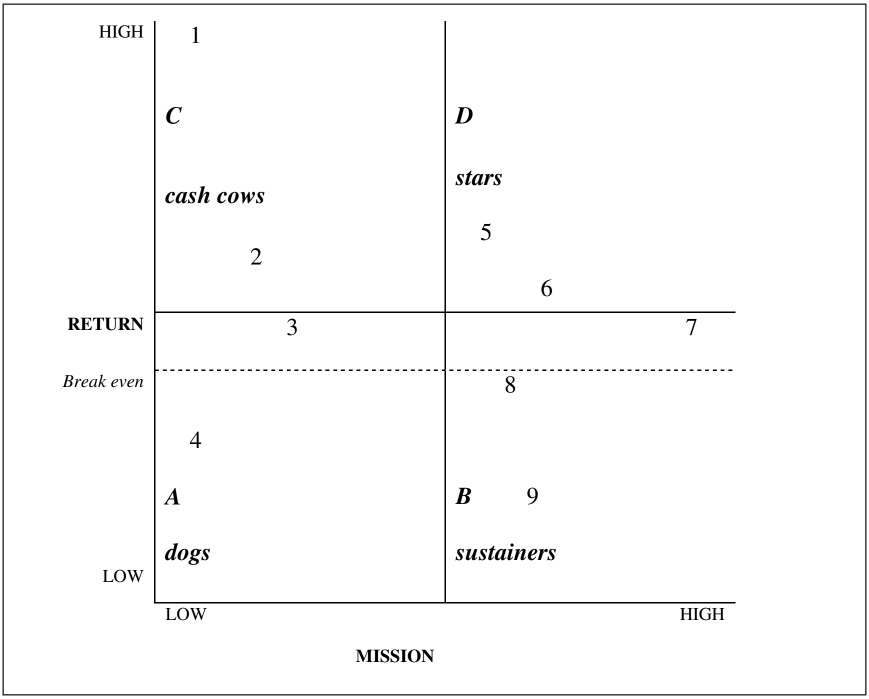
Put "mission" on the horizontal axis and "return" on the vertical and you have a grid with four sections. The point at which a program breaks even, or covers its costs, should be put somewhere between "high" and "low" on this scale, depending on your museum's financial policies and expectations (see more on this below). The four quadrants can be characterized as follows:

A: low return, low mission advancement—the *dogs*

B: low return, high mission advancement—these are your organization's *sustainers*

C: high return, low mission advancement—these are your *cash cows*

D: high return, high mission advancement—the *stars* of your portfolio



As museums look for new sources of revenue, the profitability of programs has become a heated topic of conversation among museum managers and the board. Should education programs make money; should they all be stars? Or should a museum subsidize at least some educational programs because education is central to the mission? Most managers agree that there should be some room for sustainers in the portfolio, but how many can the museum afford? In the example above, programs have to do a bit better than cover their direct expenses to be considered cash cows or stars. A museum with a less aggressive earned income policy might put that line on the border between cash cows and dogs. This might be a good opportunity to air differences of opinion and clarify expectations and policies.

Next take each of your activities or programs in turn and decide where they fall. To double-check your assessments, look at the relative placement of various programs. Looking at the example, does program 7 really advance the mission that much more than program 5? Does 4 lose more money than 8?

USING THE PORTFOLIO TO ANALYZE PERFORMANCE

Once you've completed the grid, use it to analyze your programs as well as the mix of programs. No organization lives with just cash cows and stars, but you can improve your performance by thinking about these designations and managing accordingly. In general, you work to move a program "up," with better return and/or to the right, with higher mission advancement.

Start with the *dogs*. We all have dogs that don't do much for the organization except drain resources. They may be pet programs of strong members of the staff or board. Perhaps they were once profitable but no longer are. Maybe they advanced an older vision of the museum's mission, but are less relevant to new directions. Regardless, they should either be eliminated or retooled to return more and/or do more for your mission: raise the price or lower expenses to improve return or change the focus to bring it more in line with the mission and strategic plan. In the example above, program 3 is clearly better than program 4, which is costing money and doing almost nothing for the mission. Program 3 could be made more profitable and/or relate more directly to the mission; 4 is a prime candidate for elimination. If you eliminate program 4, you'll free up financial resources (it does not cover its direct costs) as well as staff time.

The *sustainers* are probably essential to your organization: the programs to which you devote resources without requiring a significant financial return because they advance the mission. But that doesn't mean they are immune from management. You should still look for ways to improve return. Many museums make money on their adult courses, for example, while others lose money on theirs. If raising prices would undermine reaching a target audience, perhaps an underwriter might help reduce the financial burden of these programs. Also, make sure your sustainers are doing their job: they should meet the strictest tests of mission. In the example above, program 7 does a better job on both mission and return than programs 8 and 9; if they are going to cost you money, they should work harder for the organization.

The *cash cows* are those successful moneymakers that don't necessarily do much for your mission. The conventional wisdom is that you "milk" the cows. But managing a cash cow is tricky. Too often we let them dominate the portfolio, taking so many unaccounted-for resources that they aren't really returning much. Or we make too many mission demands on the cash cows, trying to make them stars. For example, your museum has an annual fashion show and luncheon, which is fun and successful but completely devoid of interpretive content. You could add a curator to give a short slide show, which would disrupt the flow and change the feeling of the event, or you could add some historical costumes to the show (with consistent entertaining commentary), or you could just leave it alone. Increasingly, educators are seeing their colleagues in membership or marketing taking responsibility for programs that are cash cows: singles nights, family festivals, or community days. In some cases, the education department simply doesn't have time to run these events. In other museums, they wish they could transfer responsibility for programs they consider frivolous. But some educators resent that other departments take over public programs that are perceived as being more fun or popular. Which raises the question: does the education department know how to plan and run an entertaining, popular program that generates revenue? (Of course, not all popular programs run by other departments are profitable, but that's another question, discussed below.)

And then there are the *stars*, the programs we all dream of. Stars are the most valuable part of your portfolio. You should expand them if possible or use as models for future programs, but above all, you need to protect them: shield them from competition and keep them fresh and attractive. Not all programs can or should be stars, but we need more of them in our museums.

USING THE PORTFOLIO ANALYSIS TO MOVE FORWARD

Portfolio analysis, used in conjunction with a strong set of goals and objectives, helps an organization consider its current programs and identify ways they could be improved. Done most accurately, programs are not placed as points on the grid, but circles, with each circle representing the relative size of the program. Managers not only think about moving the circles up and/or to the right, but growing or shrinking the circle. In particular, if you need to free up resources for other programs, take a hard look at the dogs and consider eliminating those programs.

Portfolio analysis is also valuable for the evaluation of potential projects. Every good museum has more ideas than resources. New projects should be begun judiciously, with a careful eye towards how far they will take the organization along its intended path. Using realistic budgets and clear program goals, place your new programs on this same grid. Are you creating yet another dog or birthing a star? If you have a choice between a sustainer and a cash cow, how will you decide?

Finally, this can help with decision making and assigning responsibility. Once you understand the place of a program in your portfolio—or have made clear plans to change its position—you can make smarter staff or volunteer assignments. Moving a dog to a sustainer? Give it to someone who can beef up the content. Trying to grow a cash cow? Turn it over to the best marketer in the organization. Want to improve profitability by lowering costs? Consider using more volunteers.

What if every department in your museum completed a portfolio analysis of their efforts? In some departments, there would likely be a spirited discussion of what non-financial return should be counted, such as attracting new audiences (which in some museums is part of the mission) or getting good publicity. That might be an interesting conversation to have across the museum. But each portfolio will be different. Collections management might have a few stars—photographic reproduction services, for example—but probably will be heavy on sustainers. The gift shop and food service should be concentrating on cash cows and stars, because generating revenue is their job. The same is true for development. Like education, membership probably has a mix, along with whichever department is responsible for exhibitions. The museum's department heads and leaders who are responsible for bringing a museum's content to the public should understand the relationship of mission and money and be thoughtful about creating and assessing appropriate goals and management strategies. Even if no one else in the museum engaged in this exercise, every museum education department would benefit from a critical analysis of their portfolio of programs and thoughtful consideration of getting a strong, appropriate return for their hard work.

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